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STATEMENT OF PURPOSE AND JUSTIFICATION

To accompany a bill

"To amend title 5, United States Code, to establish a Federal Employees' Retirement System to supplement Social Security benefits, and for other purposes."

This draft bill would establish a new retirement system for those Federal employees who are covered by Social Security. The Civil Service Retirement System was established prior to Social Security, and was designed to be adequate as the sole source of retirement income for Federal employees. In 1983, however, Congress enacted the Social Security Amendments of 1983, which, among other Social Security changes, brought new Federal employees (and certain others) under Social Security, beginning with those first hired on or after January 1, 1984. Later in 1983, recognizing that dual coverage under Social Security and the Civil Service Retirement System would be too costly for affected employees and the Government, and would provide an unnecessarily high level of benefits as well, Congress established a special transitional retirement system for the affected employees, with the expectation that an entirely new retirement system, designed to supplement Social Security, would be established by the end of 1985. The Federal Employees' Retirement System that would be established by this bill is designed to fulfill this need.

This new Retirement System would be a defined contribution plan, that is, a plan where a predetermined amount of money is set aside each year to provide for an employee's retirement, and the retirement benefit is determined by the amount of money that has been accumulated during the employee's career, including the interest the money has earned. Under the Federal Employees' Retirement System, employing agencies would contribute 11.6 percent of each employee's wages to the Retirement Fund, to be held in an account in the Treasury for that employee. This contribution would, of course, be in addition to the employer share of Social Security taxes, which the agency would also be paying.

For every employee who works at least one year, this money would be fully and automatically vested. When the employee reaches age 59 1/2--the same age that individuals can begin drawing on their Individual Retirement Account (IRA) savings--and separates from the Government, he or she could receive the amount that has accumulated in his or her account, including the interest the Treasury has paid on it over the years. At the employee's option, the money could be received either in a lump sum or as an annuity. A variety of forms of annuity would be provided, including fixed term annuities, life annuities, joint and survivor annuities (which would be required for married employees unless jointly waived by the employee and spouse), and annuities with cost-of-living

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

adjustments. The amounts of all of the forms of annuity would be actuarially determined, on the basis of the balance in the employee's account at the time the annuity commences.

The new Retirement System would include generous disability benefits. An employee who, after completing at least 18 months of service, becomes totally disabled would be entitled to receive, starting six months after the onset of the disability, a benefit equal to 60 percent of the pre-disability salary, reduced by the amount of any Social Security disability benefit. If the employee is not totally disabled (i.e., not disabled to the degree required under the Social Security definition of disability), but is unable to perform the duties of his or her position (or of any other position to which the agency could reassign the employee without a pay cut and within the same commuting area), the benefit would be 40 percent of the pre-disability salary. For both categories of disability beneficiaries, the amount of the benefit would be increased in subsequent years by the percentage change in the Consumer Price Index. While the employee is on the disability rolls, the former employing agency would continue to contribute 11.6 percent of the employee's final rate of basic pay (increased by subsequent average General Sechedule pay increases) to the employee's account in the Retirement Fund. Then, at age 65, the special disability benefits would end, and the employee would begin receiving regular Social Security benefits and the annuity or lump-sum payment based on his or her retirement account. The special disability benefit would be financed entirely by contributions made by the employing agencies to the Retirement Fund, based on the normal cost of the disability benefits. The cost could be varied from agency to agency, if agencies have unusually high or low rates of disability.

The new Retirement System would also include special benefits for survivors of employees who die in service. A surviving spouse would be entitled to the balance in the deceased employee's retirement account, either as a lump sum or as an annuity. However, if there was less than one year's pay in the employee's retirement account, the surviving spouse would be entitled to at least that much, either in lump-sum or annuity form. These survivor benefits would, of course, be in addition to Social Security survivor benefits.

The new Retirement System would preserve the ability of certain special categories of employees to retire early. It is impractical and undesirable to expect law enforcement officers, firefighters, and air traffic controllers to work at these jobs until they reach eligibility for Social Security benefits at age 62. Therefore, these employees would be permitted to retire and receive their retirement accounts, either in lump-sum or annuity form, as early as age 50, and would also receive a special benefit, designed to approximate their expected Social Security benefit, from the date of their early retirement until age 62. This special benefit would be financed by a special normal cost payment by the employing agencies to the Retirement Fund.

Another major feature of the new Retirement System would be a Federal Employees' Savings Plan. Under this Plan, employees could contribute up to $5,000 a year to the Fund, and the amount contributed would be deductible from the employee's

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

gross income in the year contributed. The money contributed would be held in the Fund, earning interest, and would be available for distribution in the same manner as an IRA.

The bill also includes provisions affecting the current Civil Service Retirement System. Employees under that System would be permitted to move to the new System, and if they did, their account in the new Retirement System's basic plan would be immediately credited with all of their accumulated contributions to the Civil Service Retirement System, plus an equal amount representing the matching agency contributions, plus an amount representing the interest their own and the agency contributions have earned while invested in the Civil Service Retirement Fund.

Since no new employees will be entering the Civil Service Retirement System in the future, the bill ensures the financial ability of that closed System to meet its financial obligations. This will be done by paying off the unfunded liability of the Civil Service Retirement Fund in equal annual installments over the next 40 years.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

A BILL

To amend title 5, United States Code to establish a Federal Employees' Retirement System to supplement Social Security benefits, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Federal Employees' Retirement System Act of 1985".

Sec. 2. (a) Chapter 83 of title 5, United States Code, is amended by adding at the end thereof the following new subchapter.

"SUBCHAPTER IV--FEDERAL EMPLOYEES' RETIREMENT SYSTEM

"§8351. Purpose

"It is the purpose of this subchapter to establish a Federal Employees' Retirement System under which those employees of the United States who are subject to the provisions of the Social Security Act may accrue and receive, as deferred compensation for their service, retirement, survivor, and disability benefits to supplement the old age, survivors, and disability benefits provided under title II of the Social Security Act, and to encourage and facilitate savings by such employees.

"§8352. Definitions

"For the purpose of this subchapter--

"(1) 'employee' means--

"(A) an employee as defined in section 2105 of this title;

"(B) a Member of Congress as defined in section 2106 of this title;

"(C) a Congressional employee as defined in section 2107 of this title;

"(D) an employee of the United States Postal Service or the Postal Rate Commission; and

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

"(E) an individual appointed to a position on the office staff of a former President under section 1(b) of the Act of August 25, 1958 (72 Stat. 838)

but does not include--

"(i) a justice or judge of the United States as defined by section 451 of title 28;

"(ii) an individual subject to another retirement system for employees of the United States; or

"(iii) an individual whose service is of a temporary or intermittent nature (other than an employee who occupies a position on a part-time career employment basis, as defined in section 3401(2) of this title) who is excluded by the appointing official or head of the agency involved or, in the case of an individual employed by an executive agency, by regulations of the Office;

"(2) 'wages' means wages as defined by section 3121(a) of title 26, but including remuneration excluded from that definition by paragraph (1) of that section;

"(3) 'Fund' means the Federal Employees' Retirement Fund established by section 8358 of this title within the Civil Service Retirement and Disability Fund under section 8348 of this title.

"(4) 'Office' means the Office of Personnel Management;

"(5) 'law enforcement officer' means an employee, the duties of whose position--

"(A) are primarily the investigation, apprehension, or detention of individuals suspected or convicted of offenses against the criminal laws of the United States, or the

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

protection of officials of the United States against threats to personal safety; and

"(B) are determined by the employing agency to require limiting employment opportunities to young and physically vigorous individuals; and

"(6) 'firefighter' means an employee the duties of whose position--

"(A) are primarily to perform work directly connected with the control and extinguishment of fires; and

"(B) are determined by the employing agency to require limiting employment opportunities to young and physically vigorous individuals.

"§8353. Contributions

"(a) Each agency employing an employee under this subchapter shall remit an amount equal to 11.6 percent of the wages of the employee to the Office each pay period for deposit in the Treasury to the credit of the Fund. In the case of a former employee who is receiving disability benefits under section 8355 of this title, the agency that employed the former employee prior to separation for disability shall remit an amount equal to 11.6 percent of the employee's final rate of basic pay, increased by the subsequent cumulative average increase in the rates of pay of the General Schedule under section 5305 of this title.

"(b) In addition to the amounts remitted under subsection (a) of this section, each agency employing an employee covered under this subchapter shall remit to the Office each pay period for deposit in the Treasury to

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

the credit of the Fund the amounts determined by the Office to be appropriate under section 8358(b) of this title.

"(c) The amounts required to be remitted under this section shall be paid from the appropriation or fund used to pay the employees involved. In the case of an employee under this subchapter who is an elected official, the amounts remitted shall be paid from an appropriation or fund available for the payment of other pay of the same office or establishment. In the case of an employee who is paid by the Clerk of the House of Representatives, the Clerk may pay the amounts from the contingent fund of the House.

"§8354. Employee retirement accounts; payment of benefits

"(a) The amounts remitted on behalf of an employee under section 8353(a) of this title, together with the interest these amounts have earned while in the Fund, shall be held in the Fund in an account for that employee until disposed of in accordance with the provisions of this section. The Office shall, in cooperation with the agencies employing employees covered under this subchapter, provide each employee or former employee on behalf of whom an account is being held in the Fund with an annual statement of the balance in the account.

"(b) If an employee separates from employment covered under this subchapter after completing less than one continuous year of such employment, any money held in the employee's account shall be irrevocably forfeited by the employee and shall be used by the Office as provided in section 8358(b)(1) of this title.

"(c) Except as provided by subsection (b) of this section, an employee or former employee at any time after the later of reaching age 59 1/2 (or, in

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

the case of a law enforcement officer, a firefighter, or an air traffic controller age 50) or separating from employment covered under this subchapter, may apply for and is entitled to receive--

"(1) payment of the balance held in the employee's account in a lump sum; or

"(2) payment of an annuity on the basis of the balance held in the employee's account, as provided by subsection (d) of this section.

"(d) The Office shall provide for a variety of forms of annuity, including annuities for fixed terms of years, annuities for the lives of the employee and the employee's spouse (which shall automatically be provided to each married employee unless jointly waived by the employee and the spouse), annuities for the lives of the employee and an individual having an insurable interest in the employee, and annuities the amount of which increases with inflation. The amount of all annuities provided under this subchapter shall be determined in accordance with generally accepted actuarial principles and standards, and without regard to sex.

"(e) In the case of an employee or former employee who dies after having completed at least 18 months of employment covered under this subchapter and who has not received payment of the lump-sum balance or the initial payment of annuity under subsection (c) of this section, and who is survived by a spouse, the surviving spouse shall be entitled to receive, in the form of a lump sum or an annuity, the balance in the employee's account, or in the case of an employee who dies while covered under this subchapter, the employee's final annual rate of basic pay, if such annual rate of pay is greater than the balance in the employee's account.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

"(f) In the case of an employee or former employee who dies after having completed at least one year of employment covered under this subchapter and who has not received payment of the lump-sum balance or the initial payment of annuity under subsection (c) of this section, and who is not survived by a spouse entitled to benefits under subsection (e) of this section, the balance in the employee's account shall be distributed in accordance with regulations of the Office consistent with section 8342(c) of this title.

"§8355. Disability benefits

"(a) An employee who, having completed 18 months of employment covered under this subchapter--

"(1) is under a disability within the meaning of section 223 of the Social Security Act; or

"(2) if not entitled to benefits under paragraph (1), is determined by the Office to be unable, because of disease or injury, to perform useful and efficient service in the employee's position, or in any other position to which the agency is able to reassign the employee in the same commuting area and without a reduction in pay (taking into consideration benefits under subchapter VI of chapter 53 of this title);

is entitled to disability benefits in accordance with the provisions of this section.

"(b)(1) An employee who is entitled to disability benefits under paragraph (1) of subsection (a) of this section shall be paid disability benefits by the Office each month equal to 60 percent of the employee's monthly rate of basic pay immediately before separation for disability, which rate shall be increased each year by the Office on the basis of

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

the percentage change in the Consumer Price Index. Disability benefits under this paragraph shall be reduced by the full amount of any disability benefits received by the employee under the Social Security Act.

"(2) An employee who is entitled to disability benefits under paragraph (2) of subsection (a) of this section shall be paid disability benefits by the Office each month equal to 40 percent of the employee's monthly rate of basic pay immediately before separation for disability, which rate shall be increased each year by the Office on the basis of the percentage change in the Consumer Price Index.

"(c) Disability benefits under this section shall commence on the first day of the first month beginning six months after the employee ceases, because of the disability, to perform useful and efficient service.

"(d)(1) Disability benefits for an employee who is entitled to such benefits under paragraph (1) of subsection (a) of this section shall cease on the earlier of--

"(A) the last day of the month in which the employee becomes 65 years of age; or

"(B) the last day of the month in which the employee is determined to no longer be under a disability within the meaning of section 223 of the Social Security Act.

"(2) Disability benefits for an employee who is entitled to such benefits under paragraph (2) of subsection (a) of this section shall cease on the earliest of--

"(A) the last day of the month in which the employee becomes 65 years of age;

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

"(B) the last day of the month in which the Office determines the employee to be medically recovered from the disability;

"(C) the last day of the month in which the Office determines that the employee has recovered earning capacity, on the basis of evidence that the employee has engaged in gainful employment reasonably comparable in earnings with the position from which the employee separated due to disability; or

"(D) the last day of the month in which the employee is reemployed by the former employing agency in a position in the same commuting area and comparable in earnings with the position from which the employee separated due to disability, or declines an offer of reemployment in such a position.

"(3) Disability benefits shall not be paid for any month during which the employee does not cooperate with any required medical examinations or course of treatment or fails to provide any information required to be submitted under regulations of the Office.

"(e) The Social Security Administration shall provide the Office with any information required by the Office for the administration of this section, notwithstanding any other provision of law.

"§8356. Early retirement

"(a) An employee covered under this subchapter who is an air traffic controller is subject to mandatory separation in accordance with section 8335(a) of this title. An employee covered under this subchapter who is a law enforcement officer or a firefighter is subject to mandatory separation in accordance with section 8335(b) of this title. Section 8335(d) of this title shall apply to employees covered by this section.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

"(b) An air traffic controller, a law enforcement officer, or a firefighter who separates after completing at least 20 years of such employment (including any combination of such employment) is entitled to receive monthly payments paid by the Office in an amount determined by the Office to reasonably approximate the monthly benefits such individual would be entitled to receive under title II of the Social Security Act on the basis of such employment were the employee 62 years of age. The amount of such monthly payments shall be increased each year by the Office on the basis of the percentage change in the Consumer Price Index.

"(c)(1) Payments under this section shall commence on the later of--

"(A) the first day of the month after the month in which the employee or former employee becomes 50 years of age; or

"(B) the first day of the month after the month in which the employee separates from employment covered under this subchapter.

"(2) Payments under this section shall cease on the last day of the month in which the former employee becomes 62 years of age.

"§8357. Federal Employees' Savings Plan

"(a) The Office shall establish a Federal Employees' Savings Plan under which an employee covered under this subchapter may contribute, by means of allotments from pay, up to $5,000 per year to the employee's account in the Plan. The moneys contributed to the Plan shall be deposited in the Treasury to the credit of the Fund.

"(b) Amounts contributed to the Federal Employees' Savings Plan under this section shall not be included in the gross income of the employee for the purposes of title 26.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

"(c) The balance in an employee's account in the Federal Employees' Savings Plan is available for distribution to the employee in the same manner as amounts in an individual retirement account under section 408 of title 26, and any distribution shall be treated for the purposes of title 26 as if it were the distribution of amounts in an individual retirement account.

"§8358. Federal Employees' Retirement Fund

"(a) There is established within the Civil Service Retirement and Disability Fund in the Treasury of the United States a Federal Employees' Retirement Fund, consisting of the agency contributions remitted under section 8353 of this title, employees' savings under section 8357 of this title, and interest earned by the Fund under section 8348(c) of this title. The Fund is available for the payment of benefits and distributions as provided in this subchapter and for payment of expenses of the Office in administering this subchapter, without regard to section 8348(a)(2) of this title.

"(b)(1) The Office shall determine, prior to the beginning of each fiscal year, the normal cost, stated as a percentage of wages, of survivor benefits under section 8354(e) of this title (to the extent such cost exceeds the value of deceased employees' accounts), disability benefits under section 8355 of this title, and the expenses incurred by the Office in administering this subchapter. In determining such normal cost, the Office shall take into consideration the value of accounts forfeited under section 8354(b) of this title, which shall be available to defray the cost of such survivor benefits, disability benefits, and administrative expenses. The Office may vary the normal cost so determined on an agency-by-agency basis if the Office determines it would be

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

appropriate to do so on the basis of differences in rate of disability between agencies.

"(2) The Office shall determine, prior to the beginning of each fiscal year, the normal cost, stated as a percentage of wages, of payments under section 8356 of this title for air traffic controllers, law enforcement officers, and firefighters.

"(3) Each agency employing an employee covered under this subchapter shall remit to the Fund, as provided in section 8353(b) of this title, an amount equal to--

"(A) the percentage of wages determined under paragraph (1) of this subsection for each employee of the agency covered under this subchapter; and

"(B) the percentage of wages determined under paragraph (2) of this subsection for each employee of the agency who is an air traffic controller, a law enforcement officer, or a firefighter covered under this subchapter.

"§8359. Administration; regulations

"(a) The Office shall administer this subchapter and shall prescribe such regulations and perform or cause to be performed such acts as are necessary and proper to carry out this subchapter. The Office may, without regard to section 5 of title 41 or other statute requiring competitive bidding, enter into contracts for the performance of any of the functions for which the Office is responsible under this subchapter.

"(b) Claims under this subchapter shall be in such form as the Office prescribes. Agencies shall support the claims by such certification as the

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Office considers necessary to the determination of the rights of applicants. The Office or its designee shall adjudicate all claims under this subchapter.

"(c)(1) Except as provided in paragraph (2) of this subsection or other Federal laws, the money mentioned in this subchapter is not assignable, either in law or equity, or subject to execution, levy, attachment, garnishnishment, or other legal process.

"(2) Notwithstanding any other provision of this subchapter, the Office shall by regulation provide rights and benefits under this subchapter for spouses and former spouses of employees that are consistent with the rights and benefits provided spouses and former spouses under subchapter III of this chapter.

"(d) If payment is made to an individual under this subchapter erroneously or in an incorrect amount, recovery shall be made under regulations prescribed by the Office, which may include reduction of subsequent payments to which the individual is entitled. However, recovery may be waived if the Office determines, in its sole discretion under such procedures as it may determine appropriate, that the individual is not at fault for the erroneous or incorrect payment and recovery would be contrary to equity and good conscience.

"(e) The Office shall consult with the Board of Actuaries established under section 8347(f) of this title on the actuarial status of the Federal Employees' Retirement System and the Board shall furnish its advice on any matters referred to it by the Office.

"(f) The Office may include in the operation of this subchapter any individual who was covered by subchapter III of this chapter

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

prior to January 1, 1984, and who elects in writing, not later than December 31, 1986, to terminate such coverage and to be covered under this subchapter. An individual who makes such an election shall be deemed, for purposes of the Social Security Act, title 26, and section 8331(1)(x) of this title to have first become employed by the United States after December 31, 1983. There shall be transferred to the employee's account in the Federal Employees' Retirement Fund the balance of any contributions made by such individual to the Civil Service Retirement and Disability Fund, plus an equal amount representing the agency's contributions, plus an amount determined appropriate by the Office to represent the interest such employee and agency contributions have earned while invested in the Civil Service Retirement and Disability Fund. For the purposes of determining entitlement to benefits under this subchapter and disability and survivors benefits under the Social Security Act, the period during which such individual was employed subject to subchapter III of this chapter shall be deemed to have been employment under this subchapter and under the Social Security Act.

"(g) The Federal Employees' Retirement System established under this subchapter shall be deemed a qualified plan for the purposes of title 26.".

(b) The analysis for chapter 83 of title 5, United States Code, is amended by adding at the end thereof the following:

"SUBCHAPTER IV--FEDERAL EMPLOYEES' RETIREMENT SYSTEM

"§8351. Purpose.
"§8352. Definitions.
"§8353. Contributions.
"§8354. Employee retirement accounts; payment of benefits.
"§8355. Disability benefits.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

"§8356. Early retirement.
"§8357. Federal Employees' Savings Plan.
"§8358. Federal Employees' Retirement Fund.
"§8359. Administration; regulations.".

(c) Section 8331 of title 5, United States Code, is amended--

(1) in paragraph 1--

(A) after subparagraph (viii) by striking out "or";

(B) in subparagraph (ix) by striking out the period at the end thereof and inserting in lieu thereof "; or"; and

(C) by adding after subparagraph (ix), as amended, the following new subparagraph:

"(x) an employee covered by the Social Security Act by reason of having become employed by the United States after December 31, 1983."; and

(2) in paragraph (2)--

(A) by striking out "after he gives" and inserting in lieu thereof "who, prior to January 1, 1984, gave"; and

(B) by inserting immediately before the semicolon the following: "and whose election has remained continuously in effect and who does not elect to terminate such coverage under section 8359(f) of this title".

Sec. 3. Section 8901(3)(A) of title 5, United States Code, is amended by inserting "or IV" after "subchapter III".

Sec. 4. An employee who has been a covered employee under the Civil Service Retirement System under section 203(a)(1) of Public Law 98-168, and who was not employed by the Government on December 31, 1983, shall be covered under the Federal Employees' Retirement System as enacted by section 2 of this Act, effective on January 1, 1986. There shall be

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

transferred to the employee's account in the Federal Employees' Retirement Fund the balance of any contributions made by such a covered employee under section 204(a) of Public Law 98-168, plus the agency contributions with respect to that employee under section 204(b) of that Public Law, plus the amount of the contribution deficiency with respect to that employee under section 205 of that Public Law, plus an amount determined appropriate by the Office of Personnel Management to represent the interest such money has earned while invested in the Civil Service Retirement and Disability Fund. The employee's covered service under section 203(a)(3) of Public Law 98-168 shall be deemed employment under subchapter IV of chapter 83 of title 5, United States Code, as added by section 2 of this Act.

Sec. 5. The Office of Personnel Management shall determine the unfunded liability (including the effects of future pay increases and future cost-of-living adjustments) of the Civil Service Retirement System under subchapter III of chapter 83 of title 5, United States Code, and shall notify the Secretary of the Treasury of the amounts needed to amortize that unfunded liability in 40 equal annual installments. On September 30, 1987, and at the close of each fiscal year thereafter, the Secretary of the Treasury shall credit to the Civil Service Retirement and Disability Fund, out of any money in the Treasury not otherwise appropriated, the annual installment so determined until the unfunded liability has been paid. The Office of Personnel Management may, from time to time, increase or decrease the amount of the annual installment to the extent actuarial gains and losses result in changes in the remaining unfunded liability.

Sec. 6. (a) The amendments made by sections 2 and 3 of this Act are effective on January 1, 1986.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

(b) Notwithstanding any other provision of law, the Secretary of the Treasury shall advance to the Office of Personnel Management, out of any funds in the Treasury not otherwise appropriated, such moneys as the Director may require in order to establish necessary administrative arrangements for the Federal Employees' Retirement System, with such money as is advanced to be repaid to the Treasury, with interest at a rate specified by the Secretary, not later than January 1, 1996, out of amounts set aside in the Federal Employees' Retirement Fund for administrative expenses.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

SECTION-BY-SECTION ANALYSIS

To Accompany a Draft Bill

"To amend title 5, United States Code, to establish a Federal Employees' Retirement System to Supplement Social Security Benefits, and for other purposes."

The first section titles the bill as the "Federal Employees' Retirement System Act of 1985."

Section 2 contains amendments to chapter 83 of title 5, United States Code, designed to establish a system to provide additional retirement income to those Federal employees who are covered by Social Security.

Subsection 2(a) establishes the Federal Employees' Retirement System by adding a new subchapter IV as follows:

Section 8351. Purpose

This section states that the purposes of this subchapter are to establish a Federal Employees' Retirement System so that employees of the United States who are covered by Social Security may supplement those benefits with deferred compensation in the form of retirement, survivor, and disability benefits, and to encourage and facilitate savings by such employees.

Section 8352. Definitions

Paragraph [1] of this section defines "employee" as including: an employee as defined in section 2105 of title 5, United States Code; a Member of Congress as defined in section 2106 of that title; a Congressional employee as defined in section 2107 of that title; an employee of the United States Postal Service or the Postal Rate Commission; and an individual appointed to the office staff of a former President under section 1(b) of the Act of August 25, 1958; and excluding: a justice or judge of the United States, as defined by section 451 of title 28, United States Code; an individual subject to another retirement system for employees of the United States; and an individual who performs temporary or intermittent service (but not individuals hired for part-time career employment as defined in section 3401(2) of title 5, United States Code) and is excluded on that basis by regulations of the Office of Personnel Mangement in the case of an individual employed by an executive agency, or the appointing official or head of an employing agency outside the executive branch.

Paragraph (2) of this section defines "wages" to be as defined in section 3121(a) of title 26, United States Code, including remuneration excluded by paragraph (1) of such section 3121(a).

Paragraph (3) of this section defines "Fund" as the Federal Employees' Retirement Fund established under by 8358 of title 5, United States Code, within the Civil Service Retirement and Disability Fund.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Paragraph (4) of this section defines "Office" as the Office of Personnel Management.

Paragraph (5) of this section defines "law enforcement officer" as an employee whose position consists of duties that primarily involve the investigation, apprehension, or detention of individuals suspected or convicted of offenses against the criminal laws of the United States, or the protection of officials of the United States against threats to personal safety, and is determined by the employing agency to require limiting employment opportunities to young and physically vigorous individuals.

Paragraph (6) of this section defines "firefighter" as an employee whose position consists of duties that primarily involve work directly connected with the control and extinguishment of fires and is determined by the employing agency to require limiting employment opportunities to young and physically vigorous individuals.

Section 8353. Contributions

Subsection (a) of this section requires each agency employing an employee who is covered by the Federal Employees' Retirement System to contribute each pay period to the Federal Employees' Retirement Fund an amount equal to 11.6 percent of the wages of the employee. In the case of a former employee who is receiving disability benefits under section 8355 of title 5, United States Code, the agency that employed the individual prior to separation for disability is required to contribute an amount equal to 11.6 percent of the individual's final rate of basic pay, increased by the subsequent cumulative average increase in General Schedule pay rates under section 5305 of title 5, United States Code.

Subsection (b) of this section requires that, in addition to the amounts contributed under subsection (a) of this section, each agency employing a covered employee shall contribute each pay period amounts determined by the Office of Personnel Management to be appropriate under section 8358(b) of title 5, United States Code.

Subsection (c) of this section requires that the contributions required under this section be paid from the appropriation or fund used to pay the employee involved. In the case of an elected official, the contributions must be drawn from the appropriation or fund available for payment of other salaries of the office or establishment. In the case of an employee who is paid by the Clerk of the House of Representatives, the Clerk may pay the contributions from the contingent fund of the House.

Section 8354. Employee retirement accounts; payments of benefits

Subsection (a) of this section provides that amounts contributed on behalf of an employee under section 8353(a) of title 5, Unites States Code, plus interest earned by such amounts will be held in the Federal Employees' Retirement Fund in an account for the employee until disposed of in accordance with this section. It also requires the Office of Personnel Management, in cooperation with agencies, to furnish each covered employee or former

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

employee on whose behalf an account is being held with an annual statement of the account balance.

Subsection (b) of this section provides that, for any employee who leaves covered employment with less than one continuous year of such service, any money in the employee's account is irrevocably forfeited for use by the Office of Personnel Mangement as provided in section 8358(b)(1) of title 5, United States Code.

Subsection (c) of this section provides that, except as specified in subsection (b) of this section, at the later of age 59 1/2 (age 50 in the case of a law enforcement officer, firefighter, or air traffic controller) or separation from covered employment, an employee or former employee may apply for and is entitled to either a lump-sum payment of the balance in the employee's account or an annuity paid on the basis of that balance as provided in subsection (d) of this section.

Subsection (d) of this section requires the Office of Personnel Management to provide for a variety of forms of annuity, including annuities for fixed terms of years, annuities for the lives of the employee and spouse (which are automatically provided to each married employee unless jointly waived by the employee and spouse), annuities for the lives of the employee and an individual having an insurable interest in the employee, and annuities which increase in response to inflation. It also requires that annuities under this system be determined in accordance with generally accepted actuarial principles and without regard to sex.

Subsection (e) of this section provides that if an employee or former employee dies after completing at least 18 months of covered service, but before receiving payment of the lump-sum balance in the retirement account or an initial annuity payment, and is survived by a spouse, the surviving spouse is entitled to elect either a lump-sum payment or an annuity based on the balance in the employee's account, or, in the case of an active employee who dies while covered by the system, an amount equal to the employee's final annual rate of basic pay if that exceeds the employee's account balance.

Subsection (f) of this section provides that if an employee or former employee dies after completing at least one year of covered service but before receiving payment of the lump-sum balance or an initial annuity payment, and is not survived by a spouse who is entitled to benefits under subsection (e) of this section, the balance in the employee's account is to be distributed in accordance with regulations of the Office of Personnel Management which are consistent with section 8342(c) of title 5, United States Code.

Section 8355. Disability benefits

Subsection (a) of this section provides that an employee who completes 18 months of covered service, and is either disabled within the definition of disability in section 223 of the Social Security Act or determined by the Office of Personnel Management to be unable, because of disease or injury,

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

to perform useful and efficient service in the employee's position or in any other position to which the agency could reassign the employee in the same commuting area and without a reduction in pay (taking into account benefits under subchapter VI of chapter 53 of title 5 United States Code), is entitled to disability benefits under this section.

Subsection (b) of this section provides that an employee who is entitled to disability benefits by virtue of meeting the definition in section 223 of the Social Security Act is to be paid benefits by the Office of Personnel Management equal to 60 percent of the employee's monthly rate of basic pay immediately prior to separation for disability, with that rate increased annually by the Office based on the percentage change in the Consumer Price Index. It also requires the reduction of such disability benefits by the full amount of any disability benefits received by the employee under the Social Security Act. For a employee who is entitled to disability benefits because of a determination by the Office of inability, because of disease or injury, to perform useful and efficient service in the employee's position, the subsection requires payment by the Office each month of benefits equal to 40 percent of the employee's monthly rate of basic pay immediately prior to separation for disability, with that rate increased annually by the Office based on the percentage change in the Consumer Price Index.

Subsection (c) of this section provides that disability benefits under this section commence on the first day of the first month beginning six months after the employee ceases, because of the disability, to perform useful and efficient service.

Subsection (d) of this section provides that disability benefits for an employee who is entitled on the basis of the Social Security definition of disability shall terminate on the earlier of the last day of the month in which the employee either becomes 65 years of age or is determined to no longer fall within the Social Security definition of disability. It also specifies that disability benefits for an employee who is entitled because of a determination of inability to perform useful and efficient service by the Office of Personnel Management shall terminate on the earliest of the last day of the month in which (1) the employee becomes 65 years of age, (2) the Office finds the employee medically recovered from the disability, (3) the Office determines that the employee has recovered earning capacity on the basis of evidence that the employee has been working with earnings reasonably comparable to those of the position the employee left due to disability, or (4) the employee is either reemployed by the former employing agency in a position in the same commuting area with earnings comparable to the position the employee left due to disability, or declines an offer of reemployment in such a position. In addition, subsection (d) bars the payment of disability benefits for any month during which the employee does not cooperate with any required medical examinations or course of treatment or fails to provide information under regulations of the Office.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Subsection (e) of this section requires the Social Security Administration, notwithstanding any other provision of law, to provide the Office of Personnel Management with any information it requires in administering this section.

Section 8356. Early Retirement

Subsection (a) of this section provides that a covered employee who is an air traffic controller is subject to mandatory separation in accordance with section 8335(a) of title 5, United States Code, and a covered employee who is a law enforcement officer or a firefighter is subject to mandatory separation in accordance with section 8335(b) of that title. It also specifies that section 8335(d) of that title, relating to Presidential exemptions, applies to employees covered by this section.

Subsection (b) of this section provides that an air traffic controller, law enforcement officer, or firefighter who separates after completing 20 years of such employment (including any combination of such employment) is entitled to monthly payments from the Office of Personnel Management in an amount determined by the Office to reasonably approximate the monthly Social Security benefits the individual would receive on the basis of such employment if the individual were age 62. It also specifies that the amount of such monthly payments shall be increased annually by the Office on the basis of the percentage change in the Consumer Price Index.

Subsection (c) of this section provides that payments under this section commence on the later of the first day of the month after the month in which the employee or former employee becomes age 50 or the first day of the month after the month in which the employee separates from employment under the Federal Employees' Retirement System. It also specifies that such benefits end on the last day of the month in which the former employee becomes age 62.

Section 8357. Federal Employees' Savings Plan

Subsection (a) of this section establishes a Federal Employees' Savings Plan under which an employee covered by the Federal Employees' Retirement System may contribute, by means of allotments from pay, up to $5,000 per year to the employee's account in the Plan. Contributions to the Plan must be deposited in the Treasury to the credit on the Federal Employees' Retirement Fund.

Subsection (b) of this section provides that amount contributed to the Federal Employees' Savings Plan are not to be included in the gross income of the employee for the purposes of title 26, United States Code, relating to internal revenue.

Subsection (c) of this section provides that an employee's account balance in the Federal Employees' Savings Plan is available for distribution in the same manner as an individual retirement account under section 408 of title 26, United States Code, and any distribution shall be treated for the purposes of that title as if it were a distribution from an individual retirement account.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Section 8358. Federal Employees' Retirement Fund

Subsection (a) of this section establishes within the Civil Service Retirement and Disability Fund in the Treasury of the United States a Federal Employees' Retirement Fund, which includes agency contributions under section 8353 of title 5, United States Code, employee savings under section 8357 of that title, and interest earned by the Fund. It also makes the Fund available for payment of benefits, distributions, and expenses of the Office of Personnel Management in administering subchapter IV of chapter 83 of title 5, United States Code, without regard to the limitation in section 8348(a)(2) of title 5.

Subsection (b)(1) of this section requires the Office of Personnel Management to determine, before the beginning of each fiscal year, the normal cost, stated as a percentage of wages, of: (A) survivor benefits under section 8354(e) of title 5, United States Code, to the extent such cost exceeds the value of deceased employees' accounts, (B) disability benefits under section 8355 of title 5, and (C) expenses incurred by the Office in administering the Federal Employees' Retirement System. It further specifies that in making such determinations the Office must consider the value of accounts forfeited under section 8354(b) of that title, and makes those accounts available to defray the cost of survivor benefits, disability benefits, and administrative expenses. The Office is then authorized to vary the normal cost so determined on an agency-by-agency basis if the Office finds it appropriate because of differences in rate of disability between agencies. Subsection (b)(2) further requires the Office to determine, before the beginning of each fiscal year, the normal cost, stated as a percentage of wages, of payments under section 8356 of title 5 for air traffic controllers, law enforcement officers, and firefighters. Each agency employing an employee who is covered by the Federal Employees' Retirement System is required to contribute to the Fund, in addition to amounts provided in section 8353(a) of title 5, an amount equal to the percentage of wages determined under paragraph (1) of this subsection for each of the agency's covered employees and the percentage of wages determined under paragraph (2) of this subsection for each of the agency's covered employees who is an air traffic controller, law enforcement officer, or firefighter.

Section 8359. Administration; regulations

Subsection (a) of this section requires the Office of Personnel Management to administer subchapter IV of chapter 83 of title 5, United States Code, and to issue such regulations and perform or cause to be performed such acts as are necessary and proper to carry out that subchapter. In addition, the Office is authorized to enter into contracts, without regard to section 5 of title 41, United States Code, or other statute requiring competitive bidding, for the performance of any of the functions for which the Office is responsible under that subchapter.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Subsection (b) of this section requires claims to be in such form as the Office of Personnel Management may dictate and requires agencies to support such claims with such certification as the Office decides is needed to determine the rights of applicants. In addition, the Office or its designee is required to adjudicate all claims.

Subsection (c) of this section provides in paragraph (1) that, except as otherwise provided in paragraph (2) of this subsection or in other Federal laws, the money referred to in subchapter IV of chapter 83 of title 5, United States Code, is not assignable in law or equity, or subject to execution, levy, attachment, garnishment, or other legal process. It then provides in paragraph (2) that, notwithstanding any other provision of that subchapter, the Office shall regulate to provide rights and benefits for spouses and former spouses consistent with those provided under subchapter III of chapter 83, of title 5, United States Code.

Subsection (d) of this section provides that recovery of overpayments will be made under regulations of the Office of Personnel Management, which may include reduction of subsequent payments to the overpaid individual. It also permits waiver of recovery if the Office determines, in its sole discretion and under procedures it determines to be appropriate, that the individual is not at fault and that recovery would be contrary to equity and good conscience.

Subsection (e) of this section provides that the Office will consult with the same Board of Actuaries that advises on the Civil Service Retirement System on the actuarial status of the new Federal Employees' Retirement System.

Subsection (f) of this section permits the Office of Personnel Management to bring under the Federal Employees' Retirement System any individual who was covered by the Civil Service Retirement System and who elects in writing before January 1, 1987, to transfer. For purposes of determining coverage under Social Security and Civil Service Retirement, it also deems an individual who so elects to have first become employed by the United States after December 31, 1983. It requires the transfer and crediting to such employee's account under section 8354(a) of title 5, United States Code, of the individual's contributions, matching agency contributions, and interest on both, under the Civil Service Retirement and Disability System. In addition, the pre-transfer service of such an individual would be deemed qualifying employment for the purposes of determining entitlement to Social Security disability and survivors' benefits.

Subsection (g) of this section deems the Federal Employees' Retirement System a qualified plan for the purposes of title 26, United States Code, relating to internal revenue.

Subsection (2)(b) of the Act amends the analysis of chapter 83 of title 5, United States Code, to conform to the amendments made by subsection (a) of section 2.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Subsection (2)(c) of the Act amends section 8331 of title 5, United States Code., to exclude from the Civil Service Retirement System an employee covered by the Social Security Act by reason of having become employed by the United States after December 31, 1983, and to include only those Members of Congress who gave written notice prior to January 1, 1984, of their desire to be covered, so long as such election remains continuously in effect and the Member does not elect to terminate such coverage under section 8359(f) of title 5.

Section 3 of the Act amends section 8901(3)(A) of title 5, United States Code, to authorize coverage under the Federal Employees Health Benefits Program of annuitants who are under the Federal Employees' Retirement System, under the same conditions as apply to annuitants under other Federal retirement systems. Section 4 of the Act brings under the Federal Employees' Retirement System an employee who had been covered by the Civil Service Retirement System under section 203(a)(1) of Public Law 98-168 but who was not employed by the Government on December 31, 1983. It also provides for the transfer to the Federal Employees' Retirement Fund to the credit of the employee's account any contributions made by the employee under section 204(a) of that Public Law, the amount of the agency contribution under section 205(b) of that Public Law, the amount of any contribution deficiency with respect to that employee under section 205 of that Public Law, and an amount determined by the Office of Personnel Management to represent the interest such money earned while under the Civil Service Retirement and Disability System. In addition, such employee's Government service on and after January 1, 1984, is deemed employment under the Federal Employees' Retirement System for the purposes of subchapter IV of chapter 83 of title 5, United States Code.

Section 5 of the Act requires the Office of Personnel Management to determine the unfunded liability (including the effects of future pay increases and future cost-of-living adjustments) of the Civil Service Retirement System, and to notify the Secretary of the Treasury of the amounts necessary to amortize that unfunded liability in 40 equal annual installments. The Secretary is then required, on September 30, 1987, and at the end of each fiscal year thereafter, to make such a payment until the unfunded liability has been paid. The Office is also authorized to adjust the amount of the annual installment to reflect actuarial gains and losses.

Section 6 of the Act makes the amendments by sections 2 and 3 effective on January 1, 1986. It also requires the Secretary of the Treasury to advance to the Office of Personnel Management such moneys as the Director may require in making administrative arrangements for the Federal Employees' Retirement System, with such money to be repaid before January 1, 1996, including interest specified by the Secretary, out of administrative expense money in Federal Employees' Retirement Fund.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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Section 8356. Early Retirement

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Subsection (b) of this section provides that an air traffic controller, law enforcement officer, or firefighter who separates after completing 20 years of such employment (including any combination of such employment) is entitled to monthly payments from the Office of Personnel Management in an amount determined by the Office to reasonably approximate the monthly Social Security benefits the individual would receive on the basis of such employment if the individual were age 62. It also specifies that the amount of such monthly payments shall be increased annually by the Office on the basis of the percentage change in the Consumer Price Index.

Subsection (c) of this section provides that payments under this section commence on the later of the first day of the month after the month in which the employee or former employee becomes age 50 or the first day of the month after the month in which the employee separates from employment under the Federal Employees' Retirement System. It also specifies that such benefits end on the last day of the month in which the former employee becomes age 62.

Section 8357. Federal Employees' Savings Plan

Subsection (a) of this section establishes a Federal Employees' Savings Plan under which an employee covered by the Federal Employees' Retirement System may contribute, by means of allotments from pay, up to $5,000 per year to the employee's account in the Plan. Contributions to the Plan must be deposited in the Treasury to the credit on the Federal Employees' Retirement Fund.

Subsection (b) of this section provides that amount contributed to the Federal Employees' Savings Plan are not to be included in the gross income of the employee for the purposes of title 26, United States Code, relating to internal revenue.

Subsection (c) of this section provides that an employee's account balance in the Federal Employees' Savings Plan is available for distribution in the same manner as an individual retirement account under section 408 of title 26, United States Code, and any distribution shall be treated for the purposes of that title as if it were a distribution from an individual retirement account.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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Subsection (b)(1) of this section requires the Office of Personnel Management to determine, before the beginning of each fiscal year, the normal cost, stated as a percentage of wages, of: (A) survivor benefits under section 8354(e) of title 5, United States Code, to the extent such cost exceeds the value of deceased employees' accounts, (B) disability benefits under section 8355 of title 5, and (C) expenses incurred by the Office in administering the Federal Employees' Retirement System. It further specifies that in making such determinations the Office must consider the value of accounts forfeited under section 8354(b) of that title, and makes those accounts available to defray the cost of survivor benefits, disability benefits, and administrative expenses. The Office is then authorized to vary the normal cost so determined on an agency-by-agency basis if the Office finds it appropriate because of differences in rate of disability between agencies. Subsection (b)(2) further requires the Office to determine, before the beginning of each fiscal year, the normal cost, stated as a percentage of wages, of payments under section 8356 of title 5 for air traffic controllers, law enforcement officers, and firefighters. Each agency employing an employee who is covered by the Federal Employees' Retirement System is required to contribute to the Fund, in addition to amounts provided in section 8353(a) of title 5, an amount equal to the percentage of wages determined under paragraph (1) of this subsection for each of the agency's covered employees and the percentage of wages determined under paragraph (2) of this subsection for each of the agency's covered employees who is an air traffic controller, law enforcement officer, or firefighter.

Section 8359. Administration; regulations

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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Section 3 of the Act amends section 8901(3)(A) of title 5, United States Code, to authorize coverage under the Federal Employees Health Benefits Program of annuitants who are under the Federal Employees' Retirement System, under the same conditions as apply to annuitants under other Federal retirement systems. Section 4 of the Act brings under the Federal Employees' Retirement System an employee who had been covered by the Civil Service Retirement System under section 203(a)(1) of Public Law 98-168 but who was not employed by the Government on December 31, 1983. It also provides for the transfer to the Federal Employees' Retirement Fund to the credit of the employee's account any contributions made by the employee under section 204(a) of that Public Law, the amount of the agency contribution under section 205(b) of that Public Law, the amount of any contribution deficiency with respect to that employee under section 205 of that Public Law, and an amount determined by the Office of Personnel Management to represent the interest such money earned while under the Civil Service Retirement and Disability System. In addition, such employee's Government service on and after January 1, 1984, is deemed employment under the Federal Employees' Retirement System for the purposes of subchapter IV of chapter 83 of title 5, United States Code.

Section 5 of the Act requires the Office of Personnel Management to determine the unfunded liability (including the effects of future pay increases and future cost-of-living adjustments) of the Civil Service Retirement System, and to notify the Secretary of the Treasury of the amounts necessary to amortize that unfunded liability in 40 equal annual installments. The Secretary is then required, on September 30, 1987, and at the end of each fiscal year thereafter, to make such a payment until the unfunded liability has been paid. The Office is also authorized to adjust the amount of the annual installment to reflect actuarial gains and losses.

Section 6 of the Act makes the amendments by sections 2 and 3 effective on January 1, 1986. It also requires the Secretary of the Treasury to advance to the Office of Personnel Management such moneys as the Director may require in making administrative arrangements for the Federal Employees' Retirement System, with such money to be repaid before January 1, 1996, including interest specified by the Secretary, out of administrative expense money in Federal Employees' Retirement Fund.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Compensation file

11 FEB 1985

Note for D/PERS

Bob,

Attached is a package containing the following retirement data:

(a) statistics provided by Ed Hustead projecting annuity changes if certain FY-86 budget proposals implemented. Some of our analyses of this data is included.

(b) charts showing potential annuity loss if sick leave credit eliminated

(c) charts which we prepared showing impact on annuities if 5% reduction for age imposed using current dollar figures,

(d) a paper on impacts of the FY-86 Budget Proposals prepared by [redacted]

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/S/

[redacted]

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

- Analyses of the attached Ed Hustead data:

  - Greatest and most damaging impact comes from 5% reduction for age

  - Loss of sick leave credit is not as significant as high-3 to high-5

  - Do not believe loss of sick leave and high-3 to high-5 would of themselves create mass resignations.

  - Loss of sick leave could persuade individuals currently eligible for retirement to leave sooner than planned

  - We would see the following impact if 5% reduction-for-age imposed:

<u>CIARDS</u>

- Officer (Age 40 with 15 years service) - Anticipate marketable employee would leave. Benefit so significantly reduced, employee could take money in retirement system and go for higher pay and better benefits (insurance, etc.) industry. Those who do stay would stay significantly longer than current average retirement age (53) to get a decent annuity. - DOUBLE WHAMMY!

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

- Officer (Age 45 with 20 years service) - strong potential marketable employee would leave; if employee doesn't leave, would stay beyond current average retirement age (53) to gain a decent annuity.

CIVIL SERVICE

- Officer (Age 45 with 20 years of service) - Marketable employees more likely to leave. Again benefit reduced so significantly employee would be likely to take risk on outside. Those who stay would remain significantly beyond current average retirement age to get decent annuity. (AGAIN-DOUBLE WHAMMY!!)

- Officer (Age 50 with 20 years of service) - Would probably stay but for significantly longer than current average retirement age (57)

GENERAL COMMENTS

- The marketable employee i.e. the one we most want to retain, is the one we are most likely to lose.

- Further, under these scenarios we would have extreme difficulty recruiting and retaining qualified replacements.

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

The attached tables show the effect of proposed retirement plan changes on typical employees now in CSRS and CIARDS.

The benefit is projected for ten years to assume retirement in 1995. Benefits payable under the current systems are compared to the benefits resulting from the following reductions:

Change the high-three pay base to high-five,

Reduce the CSRS benefit by 5% for each year under age 65 at retirement; and the CIARDS benefit by 5% for each year under age 60,

Eliminate the credit for unused sick leave.

The benefit which would result if all three reductions is also shown.

The benefit is compared to the current contributions and the annuity that could be purchased by those contributions if the individual were to leave today, invest the refund, and use those funds to purchase an annuity at the retirement age.

The salary projections were based on current earnings of an average individual in each grade. These were assumed to grow by 5% each year for the next ten years. This assumption anticipates moderate general wage growth and within grade increases. Promotions were not assumed. If promotions were to occur, the benefits, and reductions would be larger.

Other assumptions were that the average interest rate will be 6%, the average inflation rate will be 4% and that unused sick leave is accumulated at seven days a year.

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

ATTACHMENT A

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Table 1

Civil Service Retirement System Benefits

Effect of Various Changes in Formula

Employee now age 45 with 20 years of service

Retiring at age 55 with 30 years of service

Grade	9	11	15	SES
Benefit in current system	19568	23832	42474	56142
Benefit reduced for				
High-5 pay base	18666	22733	40516	53553
5% under age 65	9784	11916	21237	28071
No sick leave credit	18942	23069	41115	54345
All three	9034	11003	19610	25920
Current contributions	16469	20057	35747	47250
Benefit purchased at age 55 by contributions	1476	1798	3204	4235
LIFETIME ANNUITY LOSS IF ALL THREE REDUCTIONS ENACTED	252,816	307,896	548,736	749,328

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Table 2

Civil Service Retirement System Benefits

Effect of Various Changes in Formula

Employee now age 50 with 20 years of service

Retiring at age 60 with 30 years of service

Grade	9	11	15	SES
Benefit in current system	19568	23832	42474	56142
Benefit reduced for				
High-5 pay base	18666	22733	40516	53553
5% under age 65	17122	20853	37164	49124
No sick leave credit	18942	23069	41115	54345
All three	15811	19257	34320	45344
Current contributions	16469	20057	35747	47250
Benefit purchased at age 60 by contributions	1681	2048	3650	4824
LIFETIME ANNUITY LOSS IF ALL THREE REDUCTIONS ENACTED	75126	91496	163067	215542

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Table 3

CIA Retirement System Benefits

Effect of Various Changes in Formula

Employee now age 45 with 20 years of service

Retiring at age 55 with 30 years of service

Grade	9	11	15	SIS
Benefit in current system	20873	25420	45305	59884
Benefit reduced for				
High-5 pay base	19910	24248	43217	57123
5% under age 60	18263	22242	39641	52398
No sick leave credit	20246	24658	43946	58088
All three	16901	20582	36683	48488
Current contributions	16469	20057	35747	47250
Benefit purchased at age 55 by contributions	1476	1798	3204	4235
LIFETIME ANNUITY LOSS IF ALL THREE REDUCTIONS ENACTED	95327	116093	206908	273504

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Table 4

CIA Retirement System Benefits

Effect of Various Changes in Formula

Employee now age 40 with 15 years of service

Retiring at age 50 with 25 years of service

Grade	9	11	15	SIS
Benefit in current system	17394	21184	37755	49904
Benefit reduced for				
High-5 pay base	16592	20207	36014	47603
5% under age 60	8697	10592	18877	24952
No sick leave credit	16872	20548	36622	48407
All three	8047	9800	17467	23087
Current contributions	14351	17478	31151	41175
Benefit purchased at age 50 by contributions	1147	1397	2490	3292
LIFETIME ANNUITY LOSS IF ALL THREE REDUCTIONS ENACTED	261,716	318,752	568,064	750,876

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

DUE TO LOSS OF SICK LEAVE CREDIT

CIARDS

(IF CURRENT S/L BALANCE = 18 MONTHS THEN ANNUITY LOSS = 3% PER YEAR IF 12 MONTHS THEN 2%)

	Age 50 w/25 yrs service (life expectancy = 28)		Age 55 w/30 yrs service (life expectancy = 28)	
	3%	2%	3%	2%
SIS				
Annual Loss	$ 924	$ 616	$ 1,109	$ 739
Lifetime Loss	25,878	17,252	26,617	17,745
(Current Annuity)	($30,808)		($36,969)	
GS-15				
Annual Loss	$ 858	$ 572	$ 1,030	$ 686
Lifetime Loss	24,035	16,023	24,721	16,481
(Current Annuity)	($28,614)		($34,336)	
GS-13				
Annual Loss	$ 617	$ 411	$ 741	$ 494
Lifetime Loss	17,292	11,528	17,786	11,857
(Current Annuity)	($20,586)		($24,703)	
GS-11				
Annual Loss	$ 433	$ 288	$ 519	$ 346
Lifetime Loss	12,133	8,089	12,479	8,319
(Current Annuity)	($14,445)		($17,333)	
GS-09				
Annual Loss	$ 358	$ 238	$ 429	$ 286
Lifetime Loss	10,027	6,684	10,313	6,875
(Current Annuity)	($11,937)		($14,324)	

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

ESTIMATE OF ANNUITY LOSS
DUE TO LOSS OF SICK LEAVE CREDIT

CSRS

(IF CURRENT S/L BALANCE = 18 MONTHS THEN
ANNUITY LOSS = 3% PER YEAR IF 12 MONTHS THEN 2%)

	Age 55 w/30 yrs service (life expectancy = 24)		Age 60 w/35 yrs service (life expectancy = 20)	
	3%	2%	3%	2%
SIS				
Annual Loss	$ 1,039	$ 693	$ 1,224	$ 816
Lifetime Loss	24,953	16,635	24,492	16,328
(Current Annuity)	($34,658)		($40,820)	
GS-15				
Annual Loss	$ 965	$ 643	$ 1,137	$ 758
Lifetime Loss	23,176	15,451	22,747	15,165
(Current Annuity)	($32,190)		($37,913)	
GS-13				
Annual Loss	$ 694	$ 463	$ 818	$ 545
Lifetime Loss	16,674	11,116	16,365	10,910
(Current Annuity)	($23,159)		($27,276)	
GS-11				
Annual Loss	$ 487	$ 325	$ 574	$ 382
Lifetime Loss	11,700	7,800	11,483	7,655
(Current Annuity)	($16,250)		($19,139)	
GS-09				
Annual Loss	$ 402	$ 268	$ 474	$ 316
Lifetime Loss	9,668	6,445	9,490	6,326
(Current Annuity)	($13,429)		($15,817)	

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

ANNUITY ESTIMATES

CIARDS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 60 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of SIS-2 ($61,615)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES AT

	Age 50 w 25 years serv.	Age 51 w 26 years serv.	Age 55 w 30 years serv
Current CIARDS	$30,808	$32,040	$36,969
Phase-In Budget Proposals	$23,106	$24,831	$32,348
Difference -			
Per Year	$ 7,702	$ 7,209	$ 4,621
Per Lifetime	$215,656	$194,643	$110,904
Percent Reduction	25%	22.5%	12.5%

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

ANNUITY ESTIMATES

CIARDS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 60 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-15/5 ($57,227)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES AT

	Age 50 w 25 years serv.	Age 51 w 26 years serv.	Age 55 w 30 years serv
Current CIARDS	$28,614	$29,758	$34,336
Phase-In Budget Proposals	$21,461	$23,062	$30,044
Difference -			
Per Year	$ 7,153	$ 6,696	$ 4,292
Per Lifetime	$200,284	$180,792	$103,008
Percent Reduction	25%	22.5%	12.5%

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

ANNUITY ESTIMATES

CIARDS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 60 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-13/5 ($41,172)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES AT

	Age 50 w 25 years serv.	Age 51 w 26 years serv.	Age 55 w 30 years serv
Current CIARDS	$20,586	$21,409	$24,703
Phase-In Budget Proposals	$15,440	$16,592	$21,615
Difference			
Per Year	$ 5,146	$ 4,817	$ 3,088
Per Lifetime	$144,088	$130,059	$74,112
Percent Reduction	25%	22.5%	12.5%

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

ANNUITY ESTIMATES

CIARDS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 60 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-11/5 ($28,889)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES AT

	Age 50 w 25 years serv.	Age 51 w 26 years serv.	Age 55 w 30 years serv
Current CIARDS	$14,445	$15,022	$17,333
Phase-In Budget Proposals	$10,834	$11,642	$15,166
Difference			
Per Year	$ 3,611	$ 3,380	$ 2,167
Per Lifetime	$101,108	$91,260	$52,008
Percent Reduction	25%	22.5%	12.5%

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

ANNUITY ESTIMATES

CIARDS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 60 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-9/5 ($23,874)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES AT

	Age 50 w 25 years serv.	Age 51 w 26 years serv.	Age 55 w 30 years serv
Current CIARDS	$11,937	$12,414	$14,324
Phase-In Budget Proposals	$ 8,953	$ 9,621	$12,534
Difference -			
Per Year	$ 2,984	$ 2,793	$ 1,790
Per Lifetime	$83,552	$75,411	$42,960
Percent Reduction	25%	22.5%	12.5%

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

ANNUITY ESTIMATES

CSRS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 65 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of SIS-2 ($61,615).

ANNUITY ESTIMATES IF EMPLOYEE RETIRES AT

	Age 55 w 30 years serv.	Age 56 w 31 years serv.	Age 60 w 35 years serv
Current CSRS	$34,658	$35,891	$40,820
Phase-In Budget Proposals	$17,329	$19,740	$30,615
Difference-			
Per Year	$17,329	$16,151	$10,205
Per Lifetime	$415,896	$371,473	$204,100
Percent Reduction	50%	45%	25%

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

ANNUITY ESTIMATES

CSRS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 65 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-15/5 ($57,227)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES AT

	Age 55 w 30 years serv.	Age 56 w 31 years serv.	Age 60 w 35 years serv.
Current CSRS	$32,190	$33,334	$37,913
Phase-In Budget Proposals	$16,095	$18,334	$28,435
Difference- Per Year	$16,095	$15,000	$ 9,478
Per Lifetime	$386,280	$345,000	$189,560
Percent Reduction	50%	45%	25%

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

ANNUITY ESTIMATES

CSRS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 65 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-13/5 ($41,172)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES AT

	Age 55 w 30 years serv.	Age 56 w 31 years serv.	Age 60 w 35 years serv
Current CSRS	$23,159	$23,983	$27,276
Phase-In Budget Proposals	$11,580	$13,190	$20,457
Difference-			
Per Year	$11,579	$10,793	$ 6,819
Per Lifetime	$277,896	$248,239	$136,380
Percent Reduction	50%	45%	25%

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

ANNUITY ESTIMATES

CSRS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 65 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-11/5 ($28,889)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES
AT

	Age 55 w 30 years serv.	Age 56 w 31 years serv.	Age 60 w 35 years serv
Current CSRS	$16,250	$16,828	$19,139
Phase-In Budget Proposals	$ 8,125	$ 9,255	$14,354
Difference-			
Per Year	$ 8,125	$ 7,573	$ 4,785
Per Lifetime	$195,000	$174,179	$95,700
Percent Reduction	50%	45%	25%

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

ANNUITY ESTIMATES

CSRS

CURRENT VS FY-86 BUDGET PROPOSALS
(REDUCTIONS FOR UNDER AGE 65 ONLY)

ASSUMES: (1) Employee Who Is Currently Age 45 With 20 Years Service
(2) Constant High-3 Average of GS-9/5 ($23,874)

ANNUITY ESTIMATES IF EMPLOYEE RETIRES AT

	Age 55 w 30 years serv.	Age 56 w 31 years serv.	Age 60 w 35 years serv
Current CSRS	$13,429	$13,907	$15,817
Phase-In Budget Proposals	$ 6,715	$ 7,649	$11,863
Difference-			
Per Year	$ 6,714	$ 6,258	$ 3,954
Per Lifetime	$161,136	$143,934	$79,080
Percent Reduction	50%	45%	25%

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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Impacts of the FY-86 Budget Proposals Relative to Retirement on the Central Intelligence Agency

I. Background

The President's FY-86 Budget proposes a number of major changes to the current provisions of the Civil Service Retirement System (CSRS) and the CIA Retirement and Disability System (CIARDS). These changes are as follows:

a. Increase voluntary retirement age with no reduction in annuity for CIARDS participants from age 50 to 60 and CSRS from 55 to 65 with a 5% reduction for retirements under age 60 and 65 respectively.

b. Change benefit calculation base from high-3 to high-5 average salary.

c. Eliminate unused sick leave credit toward years of service (phased in over five years).

d. Cost-of-living (COLA) freeze on January 1986 and reduced indexing for subsequent years.

e. Modify current death-in-service survivor benefit rules to provide benefit only where there are children under age 16.

II. Introduction

The FY-86 Budget proposals relative to changing key features of current federal retirement systems were selected and designed

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

to reduce costs through the practical elimination of the economic feasibility of early retirement for most federal employees and acceptance that the work of government can be performed by a work-force of substantially advanced age and extended service.

The substantive implication of these effects on the Federal establishment at large may appear to be of no great significance or as beneficial to some observers.

The missions and functions of many domestic Federal departments and agencies are such that extended career employment is of either no managerial consequence or may be considered desirable and encouraged. In these circumstances, the retirement systems are perceived simply as mechanisms for providing financial security for those aging annuitants.

Such is not the case as regards the Central Intelligence Agency (CIA) whose unique missions and significantly different work force environments require effective managerial controls to maintain a relatively young and resilient employee cadre with provisions in its retirement systems that are fully supportive of Agency managerial requirements.

As Congress addresses these Budget Proposals, it is critically important that CIA's circumstances and needs are fully appreciated and practical to preclude inadvertent application of proposals that will inflict irreparable damage to the Agency's capacity to effectively carry out its responsibilities so vital to the national security interests of the United States.

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III. Employee Working Environment and Work Force Management Requisites of the Agency's Retirement Systems

A. General Overview

The intelligence work world of the 1980's continues to carry with it the heavy and unrelenting personal and managerial stresses and pressures long associated with foreign intelligence functions; but, in addition, presents a significant difference from earlier decades with the emergence and increasing impact of organized international terrorism under the sponsorship of governments hostile to the United States.

Risk of injury and capture of CIA personnel and recent grim increases in the loss of life, makes it painfully obvious that overseas service with the CIA is extremely dangerous and stressful to assignees and their families in "friendly" areas of the world and severely exacerbated in hostile environments. At the present, an anomalous situation exists in which employees serving overseas suffering the same threats, risks, and disadvantages are covered differently in their retirement benefits depending on whether they have accumulated sufficient qualifying service for the preferred CIARDS coverage.

This inequity is stark when, as previously noted, approximately 62% of CIA's overseas assignees are only covered by regular CSRS retirement benefits accorded ordinary Civil Service employees.

The increase, and regrettably the expectation, of the continuing incidence of CIA casualties abroad in the ongoing

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future presents mounting security requirements to ensure protection of the identities of sensitive CSRS and CIARDS personnel and their families throughout their working careers and after retirement and in the secure handling of death and/or disability benefits outside of Agency channels. Specific problems are foreseen in assuring secure processing of casualty benefits for CSRS and CIARDS-covered employees hired on or after 1 January 1984 who may be eligible for Social Security benefits. Under current jurisdictional authorities, CSRS cases have to be handled by both the Office of Personnel Management (OPM) and the Social Security Administration to adjudicate claims and preclude the possibility of dual benefit payments. This results in the divulging of detailed information on the individual and circumstances of his or her death or disability to numerous non-Agency personnel. The risk of disclosure of security sensitive information to unauthorized individuals under these circumstances is of considerable concern to the CIA.

B. <u>Working Environment Factors Applicable to All CIA Personnel</u>

All CSRS and CIARDS CIA employees have access to security sensitive and highly classified national security information.

All employees, therefore, are subject to the same stringent security clearance standards. This includes polygraph examination as part of initial clearance processing and periodic repolygraph-

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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ing and reinvestigation at scheduled intervals throughout their careers, a requirement not required of regular Government Civil Service applicants and employees.

Civil Service and CIARDS employees assigned to certain activities and locations [redacted] are required to live under cover for the duration of such assignments. Protection of such cover imposes unique social restrictions and additional security burdens on such individuals that are not required of Federal employees in "normal" Governmental employment.

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All employees and former employees are required to submit all writings or outlines of oral presentations, including fiction, which deal with intelligence activities for prior review, modification and approval before publication.

Upon separation, all employees, including fully overt personnel, must receive security approval of descriptions of work performed while employed by CIA for use in subsequent job applications or interview. Security considerations may require deletions of substantial blocks of experience which would be attractive to future employers and thus hinder efforts to obtain other employment.

C. <u>Work - Environment Factors and Work Force Management Requisites Applicable to CIARDS-Type Employees</u>

1. <u>Work Environment Factors - CIARDS</u>

The majority of employees engaged in support of the operational work of the CIA generally have to be relatively young to middle

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

2. Work - Management Requisites - CIARDS

As a management mechanism, CIARDS has been woven intimately into the personnel management system of the operational cadre and its supporting elements.

It has contributed most effectively in fulfilling such essential managerial needs as:

- Providing the Agency with a secure mechanism for the Administration of retirement affairs for members of the CIARDS.
- Enabling the Agency to recruit and retain the type and quality of work force essential to fulfilling critical work requirements and the capability for timely retirement of those individuals who have passed their peak performance. Mandatory retirement at age 60 and voluntary early retirement (50 with 20 years) without penalty reduction of benefits are essential contributors to meeting managerial objectives of keeping the operational cadre fully effective; permits the flow-through of new employees providing opportunities for employee developmental assignments; timely promotions; and, in meeting reduced personnel ceilings when required. If the mandatory and voluntary retirement eligibility ages were to be extended and current annuity levels reduced for CIARDS, severe problems would be created in terms of an unacceptable aging of the overall operational cadre; the diminution of vigor and adaptability

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among its ranks, and increased difficulty in arranging cover. Effective management of the cadre would be severely weakened in terms of attracting recruits in the first place; the creation of severe blockages in essential flow-through assignment opportunities within the ranks; promotion; and timely retirement.

D. Working Environment Factors and Work Force Management Requisites Applicable to CSRS-Type Employees

1. Working Environment Factors - CSRS

Civil Service employees who are assigned in support of the Agency's operational activities abroad perform these services under the same extremely stressful and hazardous conditions as those individuals who have already qualified for CIARDS. Typically, these personnel serve approximately six to eight or more years before accruing sufficient qualifying service for the special provisions of CIARDS. During this period they and their dependents are covered under the regular Civil Service disability and death benefit provisions.

Employees, such as Intelligence Analysts and Administration Specialists, who spend their Agency careers solely in overt domestic assignments are not exposed to the special employment conditions encountered by CIARDS and pre-CIARDS personnel. However, these careerists are subject to the unique conditions common to all Agency employees cited previously in this report that are clearly a typical of "normal" domestic Federal employment.

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In addition, the nature of current intelligence work with the vital national interest of its product, brings with it a continuing plethora and relentless volume of critical priorities, short deadlines, and serious national security consequence of error.

These factors create continuous stress, attrition of effectiveness, and patterns of burnout at ages somewhat older than those in the operational milieu; but, nonetheless at relatively young ages.

2. Work Force Management Requisites - CSRS

(a) CSRS Employees in Non-Operational Activities

Just as the special management requirements of the Agency's clandestine service have been effectively accommodated through the CIARDS mechanism, the provisions of Civil Service retirement, particularly the early optional retirement feature with non-reduced annuities at 55 with 30 years of service, have proven to be most effective tools for Agency managers in accommodating the different but equally important requirements served by CIA's analytical, scientific, and support cadres by providing:

- Recruitment inducement in the face of intense competition with the private sector (where higher salaries are frequently available) of the best expertise in a broad spectrum of professional disciplines and fields of specialization.

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

- Predictability of the projected patterns of the timing and numbers of future retirements that enable Agency managers to establish employee career development, progression, and replacement on a definitive basis.
- Retention of substantive analysts, scientific and technical experts, and administrative specialists through their most productive years with sustained currency in their areas of expertise and state of the art.
- Capability of managers of these non-operational cadres to encourage voluntary retirement at appropriate combinations of age and service compatible with organizational needs.

(b) <u>CSRS Employees Supporting Operational Activities</u>

As previously cited earlier in this section serious problems currently exist as regards those Agency CSRS-covered employees who are serving in support of operational activities.

The managerial problems are of two dimensions. The first is the obvious inequity of CSRS and CIARDS-covered employees serving in the same locales under the same stresses and hazards but with different benefit protections.

The second is the need to establish fully secure mechanisms for protecting identities of sensitive CSRS personnel during their employment and post-employment years and to assure secure processing of casualty benefits which now must be processed through non-CIA controlled channels.

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IV. Specific Proposals Which Would Inflict Most Extensive Damage to CIA's Intelligence Capabilities

a. Among the several FY-1986 Budget proposals relative to retirement submitted to the Congress, two proposals, (1) to extend retirement ages for full annuities, and (2) the imposition of severe penalties for early retirement, would inflict grievous damage to the CIA's capability to maintain the essential characteristics and quality of our foreign and domestic work forces required to effectively accomplish critical intelligence requirements of vital importance to the national security of the United States.

The intelligence missions and responsibilities charged to the CIA impose singularly unique combination of work force characteristics, and managerial requisites that are not found in other Federal agencies although some of these factors exist in the FBI, Foreign Service, and the military services.

The CIA, because of the nature of its mission, must prioritize the needs of the Agency and the personal interests of our employees.

Consistent with this concept, CIA management utilizes its retirement system (i.e., CSRS and CIARDS) as primary management tools to effect control over the age and service patterns of employees retention and separation to support the attainment of organizational objective.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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To meet these objectives, CIA must maintain a relatively young, competent, vigorous and fully effective work force through its most productive years and a capacity to induce retirement at relatively early ages before continued employment becomes detrimental to the best interests of the Nation.

The current provisions of both CIARDS and CSRS have been fully integrated into the Agency's overall personnel management system providing the needed managerial flexibility and control that produce predictable patterns of retirements.

This base then permits the establishment of definitive recruitment need, individual employee development, timely employee advancement, and replacement planning.

V. Aggregate Impacts on the CIA Should All of the Retirement Proposals be Imposed on the CIA

As previously stated, imposition of the proposals to extend retirement ages for full annuities and install service penalties for early retirement would essentially destroy the Agency's capability to maintain the type of work force required to attain organizational objectives. The composite effect of all of these proposals are expected to produce a sequence of other negative results as follows:

a. Loss of many of our more senior and most valuable employees now eligible for retirement. Of the Agency's Senior Intelligence Service (SIS) level officers (equivalent to the Senior Executive Service in other agencies) 39 percent

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Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

are now eligible for retirement with an extremely higher percent of the Operations Directorate officers eligible (66 percent). These are the top managers and most senior substantive officers in the Agency's operational, analvtical, high technology, and support areas. There is serious concern that many of these eligibles will elect to retire in larger numbers in compressed time frames as they foresee succession prospects fade as more senior, non-eligible incumbents extend their departure dates to future years.

The "feeder" group for the SIS cadre comes from the GS-15 and GS-14 level officers pool. There are approximatelv 16 percent of our GS-14 and GS-15 officers now eligible to retire (29 percent in Operations Directorate). This overall number of eligibles may appear relatively low but within these numbers are a very high percentage of employees in relatively critical occupational areas in each of the directorate.

b. Institution of early retirement penalties will severelv reduce the future flow of retirements and create blockages of developmental assignments and dry-up promotion headroom.

c. Loss of the most promising of our mid-level and younger officers who would seek careers elsewhere when blockages for assignments and advancement occur.

d. Increased turnover in the ranks of intelligence personnel will make it increasingly difficult to safeguard national security information.

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e. Elimination of the strongest inducements for recruitment, the ability to offer--in return for service in demanding and often unique circumstances--the prospects of a career with reasonable developmental opportunity, timely promotions, and retirement with non-reduced annuities at a relatively young age.

VI. Conclusion

- Imposition of extended retirement ages and early retirement penalties would severely damage CIA's effectiveness and the expertise and skill of the work force.
- Would destroy young and vigorous work force as we know it.
- Potentially stand to lose significant portion of existing senior management and feeder groups.
- Immoral to force those people out who essentially feel they have a work lifetime contract for protection of their retirement benefits.
- It is essential to the national security interests of the U.S. that the Nation's intelligence capabilities be strengthened in these critical times.
- In CIA, the retirement provisions of current CIARDS and CSRS, particularly early retirement without annuity reduction, are critical to maintenance of full capability to merit requirements.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

United States
Office of Personnel Management

Washington, D.C. 20415

In Reply Refer To Your Reference

Honorable George Bush
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

The Office of Personnel Management submits herewith a legislative proposal, "To amend title 5, United States Code, to establish a Federal Employees' Retirement System to supplement Social Security benefits, and for other purposes." We request that you refer this proposal to the appropriate committee for early consideration.

There is an urgent need to create a supplemental retirement program for new employees hired after January 1, 1984. After that date, new Federal employees and certain other individuals in all three branches of Government have been covered by Social Security, but without any permanent additional staff retirement plan. The existing Civil Service Retirement System predated the Social Security system and, therefore, was designed to stand alone as the sole source of retirement income. With the passage of Public Law 98-168, a Congressional consensus was created to adopt a complementary staff retirement plan for Federal employees.

A recent study for the executive branch by the consulting firm of Towers, Perrin, Forster and Crosby found that benefits under the present retirement system are distributed very unequally. They found that about 45 percent of new entrants into the existing retirement system actually subsidized that system, and another 15 percent received few real benefits. Others, retiring as early as age 55, do very well. The system is nonetheless costly compared to plans in the private sector. The consulting firm found that the actuarial cost to the Government is 28 percent of its payroll, compared to the average non-Federal retirement plan in the private sector including Social Security, of 17 percent of payroll. And the dynamic unfunded liability is an incredible $528.1 billion. Since employees contribute only seven percent of pay to the system the remaining 80 percent of the cost must be borne by the taxpayer.

The Administration proposal would avoid the unfairness of the present system. Its major feature would add to Social Security a wholly Government-supported defined contribution retirement system. Employees will pay nothing beyond Social Security. The new system will avoid the bias in favor of very long-term employees, by providing full vesting rights after just one year of employment. Most employees would be able to receive benefits, rather than the many subsidizing the few. A Federal employee IRA is established with contributions up to $5,000 per year with benefits available at age 59 1/2, the same as for a private IRA. The total VOL

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January 1980

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

cost to the Government would be 19 percent of payroll, above the average value in the private sector and comparable to the level of benefits offered by Fortune 500 corporations. Employees covered under the existing system would be eligible to transfer to the new system. We expect many employees with relatively short periods of service to exercise this option.

Specifically, the proposal includes the following major provisions:

- Agencies would contribute 11.6 percent of pay to the supplemental plan, plus an additional amount for certain special features, such as disability benefits. Although employees would not be required to contribute any funds to the basic defined contribution plan, they could contribute up to $5,000 annually to a special Federal employees savings account. Benefits would depend on these amounts, plus interest earned by this money.

- Employees could retire as early as age 59 1/2 with as little as one year of service. That is, vesting would take place after one year. Retirement under Social Security, of course, cannot take place even for reduced benefits until age 62.

- Employees could elect a variety of forms of annuity, including an annuity with annual increases based upon inflation (COLA), or they could receive a lump-sum payment for the balance in their account.

- Early retirement would continue to be permitted for law enforcement officers, firefighters, and air traffic controllers. In order to make early retirement feasible, a special supplement will be paid to these employees until Social Security begins at age 62. These special benefits will be pre-funded through a surcharge to agencies employing each of these special employees.

- Amounts owed to individuals would be separately identified and balances kept separately, but funded through the existing Civil Service Retirement System account and managed by the Office of Personnel Management.

- The unfunded liability of the existing Civil Service Retirement System would be paid off by the Treasury in forty years, thus ensuring that sufficient funds would be available so that the system can meet its remaining obligations.

We believe the supplemental retirement plan would serve as a sound recruitment and retention incentive for Federal employees and would achieve a much needed balance between the desire of Federal employees to have a good retirement system and the demands of the Nation's taxpayers for restraint in the costs of Government programs. It would be fully funded, rather than create a half trillion dollar liability. Most importantly, it would be fair to all Federal employees.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

The Office of Management and Budget advises that enactment of this proposal would be in accord with the program of the President.

A similar letter is being sent to the Speaker of the House of Representatives.

Sincerely,

Donald J. Devine
Director

Enclosures

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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United States
Office of Personnel Management

Washington, D.C. 20415

In Reply Refer To: Your Reference

Honorable David A. Stockman
Director
Office of Management and Budget
Washington, D.C. 20503

MAR 11 1985

Attention: Assistant Director
for Legislative Reference

Dear Mr. Stockman:

The Office of Personnel Management has prepared the enclosed legislative proposal, "To amend title 5, United States Code, to establish a Federal Employees' Retirement System to supplement Social Security benefits, and for other purposes," together with appropriate accompanying documents.

Since January 1, 1984, new Federal employees and certain other individuals in all three branches of Government have been covered by Social Security. The existing Civil Service Retirement System predated the Social Security System and, thus, was designed to stand alone as the sole source of retirement income. There is a consensus, expressed in Public Law 98-168, that Social Security coverage for Federal employees should be supplemented by an employer-sponsored staff retirement plan, as it is for many private sector employees.

The enclosed proposal would establish a system to provide additional retirement income to new Federal employees who would be covered by Social Security. The cost of this defined contribution plan would be in line with the pension costs of generous private sector pension plans, about 19 percent of pay including the employer share of Social Security taxes. All of the money would be invested in Treasury securities.

We would appreciate receiving your advice as to whether the submission of this legislative proposal to Congress would be consistent with the Administration's program.

Sincerely,

Donald J. Devine
Director

Enclosures

CON 114-24-3
January 1980

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

LEGISLATIVE LIAISON
85-0938

March 26, 1985

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
ACTION
AID
Council of Economic Advisers
Central Intelligence Agency
Equal Employment Opportunity Commission
Environmental Protection Agency
General Services Administration
National Aeronautics and Space Administration
National Endowment for the Arts
National Endowment for the Humanities
National Labor Relations Board
Nuclear Regulatory Commission
Panama Canal Commission
Securities and Exchange Commission
Small Business Administration
U.S. Information Agency
U.S. Postal Service
Veterans Administration

SUBJECT: Office of Personnel Management proposed draft of a supplemental retirement system, "Federal Employees' Retirement System Act of 1985."

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than April 23, 1985.

Sanitized Copy Approved for Release 2011/01/07 : CIA-RDP89-00066R000400030003-5

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Questions should be referred to Curt Smith (395-6156) or to Hilda Schreiber (395-7362), the legislative analyst in this office.

Naomi R Sweeney

Naomi R. Sweeney for
Assistant Director for
Legislative Reference

Enclosures

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